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1 JUNE 1951

Excerpts from a letter of June 1, 1951, to the Director of  
Approved For Release 2005/04/26 : CIA-RDP79R01012A000600030003-8  
Defense Mobilization from the Secretary of the Interior,

**ON CURRENT WORLD PETROLEUM SITUATION.**

Current world-wide supply and demand for petroleum products is most delicately balanced. Between 1946 and 1950, world-wide consumption of petroleum, exclusive of Russia and her satellites, has increased over 40 percent. Eastern Hemisphere consumption has increased about 75 percent during the same period. The economies of France, the Low Countries and many other European nations have been increasingly oriented to petroleum. The defense and security programs of the United States, and others of the United Nations, have accelerated essential demands for oil. There is only a negligible amount of world refining capacity not presently in operation. All operating refineries are running at approximately their normal maximum capacity. Transportation facilities, particularly essential tanker tonnage, are strained to the utmost. Stocks of petroleum at various key points within the Eastern Hemisphere are at minimum working levels. In some places stocks are less than 30 days of consumption. Within the past two months petroleum supplies at Rhodesia, a critical source of copper, were equal to less than 5 days' consumption. Replenishment supplies must continue to be obtained on the shortest possible haul, else supplies will become completely exhausted; for example, India is dependent upon a 8- to 10-day tanker haul from Persian Gulf sources for its essential kerosene requirements; a 35- to 45-day tanker voyage would be required to provide India with kerosene from the Western Hemisphere. It is evident that even the momentary loss of any current source of world petroleum supply can create havoc among the free nations of the world.

It should be emphasized that petroleum supply is a world-wide matter and that shortages one place necessarily involve adjustments in remotely distant areas. This normal inter-reliance is sharply pointed up in times of emergency and was amply demonstrated during World War II.

In mid-April of 1951, as a result of a nationalistic uprising followed by Communist inspired activity, there was an almost complete shut-down of the Anglo-Iranian Oil Company's Abadan Refinery in Iran. Fortunately, this shut-down was of relatively short duration. But even this brief interruption of full scale operations at this single refinery has resulted in the irretrievable loss of up to 7,000,000 barrels of petroleum products otherwise available for world consumption. Many oil companies, including some American ones, have been directly affected by the Abadan shut-down. These companies have bought heavily in United States and other markets in an effort to compensate for these losses. The result has been to further deplete, both in the United States and elsewhere, the already thin margin between supply and requirements.

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Current events in Iran, stemming from her aggressive oil nationalization program, threaten the maintenance of the continued flow of essential petroleum products originating in that country. All recent, available information pertaining to that situation indicates that it is most precariously poised. On May 28, 1951, the Iranian Premier threatened the imposition of custom controls upon the Anglo-Iranian Oil Company. The fulfillment of this threat would again cause the Abadan refinery to shut down. It is no exaggeration to say that at any moment, either as a result of inflamed Iranian nationalism or Communist inspired activity, the free nations of the world may lose access to both Iranian crude oil and the refined products manufactured at Abadan. That loss would be catastrophic and whatever the cause, would represent a triumph of major proportions for the forces of aggression.

Normal crude oil production in Iran is at the rate of approximately 700,000 barrels a day; 550,000 barrels a day of crude is refined at Abadan; 150,000 barrels a day move to other refineries located primarily in Western Europe. Refined products manufactured at Abadan move almost wholly to Eastern Hemisphere markets; some 60 percent, west of Suez, the balance, east of Suez. Fuel oil supplies for the British Navy and for the world merchant fleet operating in the Middle East, aviation gasoline for the armed forces of many of America's allies, and for international air lines, vital kerosene supplies for India, essential petroleum products for Europe's reviving industries—all are dependent upon Iranian oil.

Moreover, unrest in Iran, from whatever cause, can readily spread to other Middle Eastern or Eastern Hemisphere oil centers with concomitant jeopardy to supplies originating in these areas. It is a matter of common knowledge that Iraq, another source of strategic importance, is dissatisfied with the arrangements presently controlling the operations of the oil companies in that country. Likewise, it is well known that dissident activity in Indonesia has seriously threatened and will continue to menace the maintenance of all supplies from that Far Eastern source.

In order to meet its own present requirements, the United States today must import approximately 1,000,000 barrels per day of crude oil and products. It is obvious, therefore, that any substantial diminution in world petroleum supplies, whether caused by the loss of Iranian oil or otherwise, will directly and adversely affect the interests of the United States, including the successful continuation of its mobilization program. Accordingly, the United States must be prepared to meet and handle immediately the problems inherent in any such loss of world petroleum supplies.

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It is believed that the American oil companies engaged in foreign petroleum operations can take, through cooperative action, many steps and perform many acts which will either compensate for or alleviate shortages arising from any such loss.

The gravity of the situation confronting the United States as a result of the precarious circumstances existing in the Middle East today cannot be overemphasized. Daily press reports are a constant reminder that Iranian oil may well be lost to the channels of world supply at any moment. The highest military and civilian officials of the United States Government have expressed their deep concern with this problem. These views have been expressed in both public statements and under classified cover.

Accordingly, it is apparent that all possible steps should be taken immediately to assure the maintenance of an adequate supply of petroleum for friendly foreign nations in the event that current developments in the Middle East result in the loss of any substantial portion of the essential supplies originating in that area. In the event these supplies are lost, only the doing of physical acts by the American oil companies operating abroad will compensate in any measure for such loss. Supplies will have to be stretched to the utmost. Every conceivable facility or combination of facilities, every possible action or combination of actions which can contribute to the maintenance of adequate world petroleum supplies must be employed. The burden will fall directly upon the American oil companies engaged in foreign petroleum operations. Cooperative and joint action by these companies is of the very essence of any program designed to alleviate the loss of such essential world petroleum supplies.

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